

OFFICE OF REPORTS AND ESTIMATES, CIA
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS -- WEEK OF 30 MARCH - 5 APRIL 1948

GENERAL

Reparations shipments from Japan

Shipments of advance transfers of interim reparations are now being made regularly. On 14 March the tenth shipment totaling 333 packages of tools and secondary metal working equipment weighing 821 metric tons was shipped to Far Eastern British Commonwealth nations. This was the first reparations shipment against the United Kingdom allocation. On 15 March the eleventh shipment of reparations consisting of 87 packages of tools and secondary metal working equipment weighing 274 metric tons was shipped to the NEI. This was the fourth shipment to the NEI.

Chinese support of US policy in Japan

While many news papers, particularly the independent Political Science Ta Kung Pao, continue to criticize US efforts to rehabilitate Japan, the Chung Yang Jih Pao, official Kuomintang organ in Shanghai, has come out in full support of US policy in Japan. The official character of the paper gives added significance to the statements that Japanese economy must be made self-supporting and that charges of the US building Japan into an aggressor nation are "greatly exaggerated."

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-2-

JAPAN

"Peace without treaty" sentiment crystallizes in Japan. Japanese politicians have long been eager to represent their nation at the peace table in the expectation that the party or coalition in power at the signing could thereby claim tacit Allied approval for the Cabinet-in-power's policies. Growing doubt as to possibility of a peace treaty, however, crystallized when Japanese papers were permitted on 1 April to publish MacArthur's recommendation of 18 January to the Congressional Appropriation's Committee that the Allied Nations "restore to the normal limits of diplomatic privilege the right of Japanese citizenry to journey abroad." If this recommendation should be adopted, one of the final steps obstructing Japan's return to a peace-time international status will have been removed. The publicity granted this recommendation follows on the heels of the Draper Mission's opinions, as well as semi-official statements from other sources, on economic rehabilitation and serves to confirm Japanese sentiment that many problems normally settled in the peace treaty are now virtually decided. The formal humiliation of a peace treaty would remind the Japanese for a long time to come of their defeat and it is possible that the "peace without treaty" arrangement may rob the Japanese of a source of bitterness like that motivating Germany after the Treaty of Versailles.

SCAP intervention for the second time within a few days in the strike conducted by the Japanese Government Communications Workers Union has resulted in the setting aside of overt tactics and the subsiding of the threat that the current labor crisis might effect permanent damage to Japanese economic recovery. Union leaders on 1 April ordered the end of regional strikes in response to government orders issued after a statement on the 31st by General Marquat, Chief of SCAP's Economic and Scientific Section, that these tactics fell under the "coordinated work stoppages" against which the January 1947 general strike ban was invoked two days earlier. General Marquat's statement included a promise not otherwise to restrict freedom of action heretofore extended to labor in the achievement of legitimate objectives. At the same time, occupation authorities have arrested several union officials for strike actions "prejudicial to the security of the occupation forces."

Meanwhile negotiations are continuing between the Cabinet and the government worker's union on the basis of a compromise plan proposed by pro-labor Labor Minister KATO. Japanese Government officials have for their part indicated their intention to take strong measures to enforce discipline among government employees whose strike activities violated civil service regulations. Moreover, Premier Ashida has reaffirmed the Cabinet's interest in Diet action to curb Communist activities and to control insurgent trade unions. Drafting of a Japanese counterpart of the US Taft-Hartley Law is reported to be under consideration in connection with the Ashida Government's attempt to stabilize labor conditions in the interests of promoting foreign confidence in investment possibilities in Japan.

On the other side, SUZUKI Mosaburo, leader of the leftist Gogatsu Kai of the Socialist Party, has warned that the Ashida Cabinet faces the possibility of a renewed labor offensive in May or June when a new price structure is expected to take effect. A more immediate threat to the Cabinet's program for meeting the labor crisis, however, has appeared in the threat of a split in the Government Railway Workers Union (GRWU) where the Communist-dominated

-3-

JAPAN (Cont.)

minority faction has raised objections to union acceptance of the government-sponsored 2920 average wage standard. GRU acceptance of this formula at their convention early in March prevented formation of a united front of government employees in their campaign for higher wages and considerably strengthened the government's bargaining position vis-a-vis the striking communication's workers.

KOREA

Rumors undermine confidence of South Koreans in forthcoming elections. The favorable reception given by Kim Kiusic and Kim Koo to the North Korean proposal for a conference between South and North Korean political leaders has started many rumors and cross currents which are further confusing the South Korean electorate and are diverting their interest from, and destroying their confidence in, the forthcoming elections. All Soviet moves have been specifically laid out and directed to achieve this confusion which now surrounds the South Korean elections.

One rumor

[redacted] that Kim Kiusic and Kim Koo may accept the North Korean "Constitution" and appropriate posts in a government established under that "Constitution" and, by virtue of their action, consider North and South Korea united. Another rumor is to the effect that even Kim Seung Soo, head of the Hankook Democratic Party, has deserted the South Korean election and is angling for an invitation to the Pyongyang meeting.

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North Korean financial activities in South Korea. The black market price of gold in South Korea has soared to an all-time high of over 1,500 won per gram, as compared to about 1,000 won per gram one month ago. The main reason for this trend is heavy purchases of available gold and other precious metals by North Korean agents who are using old Bank of Chosun currency collected in North Korea during the currency conversion there last December. Bank of Chosun officials estimate that about 1.4 billion won of pre-liberation Bank of Chosun issue of won were still in North Korea as of December 1947 and that these notes have been flowing into South Korea in substantial amounts, mainly to finance Communist activities since that time.

-4-

CHINA

Military

Spring mud and swollen rivers in Manchuria continue to hamper military activity. The Chinese Communists, generally inactive except for small scale actions near Changchun, have reportedly been strengthened by the arrival of considerable numbers of recruits from northern Manchuria and Jehol. The Nationalist airforce stated that they had bombed a number of rail points in the Communist rear, destroying ten locomotives.

In North China, Nationalist units under Fu Tso-yi have reoccupied the entire length of the Peiping-Suiyuan railroad, but at least a month will be required before repairs on the badly damaged section between Tatung and Kalgan can be completed. Although the Nationalists have forced the Communists southward, Tatung still remains loosely encircled by Communist troops. Some elements of Hieh Yung-chen's columns have reportedly returned to the Peiping-Paoing area where there have been renewed attacks on Chohsien, north of Paoing. Nationalist sources indicate that advance units of Lin Piao's ninth column have reached Tsunhua, just north of the Kailan mining area. The Government has announced its decision to evacuate the "strategically unimportant" Shantung ports of Weihaiwei, Fenglai, and Lungkou, the 8th army, which garrisoned these points, to participate in future Manchurian operations.

Communist units in Shensi pressed further south, capturing Hancheng and Hoyang and probing the area south of Tungkuan. They also cut the Hankou-Chengchou stretch of the Peiping-Hankow railway by occupying Chumatien and Yencheng.

Political

Chiang Kai-shek announced to the Kuomintang Central Executive Committee on 4 April that he would not run for the position of president. While there had been rumors to that effect, his move came as a surprise to most quarters. Under the new Chinese constitution the position of president may not be one of greatest importance and many observers feel that Chiang would rather take over the premiership where he would be in a position to control more closely the activities of the Legislative Yuan. He told the Committee that he was willing to accept any Government position other than the presidency or vice-presidency. US Ambassador Stuart reports that the Generalissimo "advised" party members to vote for Hu Shih for president and Sun Fo for vice-president and asked Li Tsung-jen and Cheng Chien to leave the vice-presidential race open to civilians by withdrawing their names. While Cheng Chien was willing to do so, Li claimed that it was too late and has decided to run independently of the Kuomintang. Stuart fears trouble if Li is defeated. The only other announced candidate for the presidency is Chu Cheng, president of the Judicial Yuan.

The National Assembly, in session for the past week, has been complicated by bitter wrangling. Enough delegates to form a two-thirds quorum finally took their seats, and a presidium, enlarged to 85 members from the 25 called for in the Assembly organic law, has been elected. The dispute over seats for the minority parties still continues. The Young China Party were given 220 seats out of the 300 originally promised and the Democratic Socialists, 202

-5-

out of 260. The popularly elected but unseated delegates are causing trouble, ten of their group having been on a hunger strike since the Assembly's convocation.

In the National Assembly, the minor racial groups such as Mongols, Manchus, Uigurs, Kazaks and Minotzu, are reportedly preparing to fight for a revision of the Constitution so as to provide autonomy for their domains, presumably parts of Inner Mongolia and Sinkiang. It is stated that they desire this autonomy so as to obtain freedom from oppression of unsympathetic and rapacious Chinese officials and not for separation from the Chinese Republic. No delegates have appeared from the virtually independent "Ili Government" in Sinkiang. Some of the Mongol delegates state that many of the delegates of the minor racial groups are "plants" of the National Government, some with forged credentials.

US Secretary of State George Marshall has been the target of a series of highly critical editorials in the Chinese Catholic organ Yi Shih Pao. The paper has been attacking him for what it calls his anti-Chinese policy in hindering aid for China. Marshall is accused in the editorials of persistent prejudices contrary to US public opinion and of desiring to "maintain his own political prestige" by putting Europe first.

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The acceptance of the GATT *(General Agreement on Tariffs and Trade)* ~~(Geneva Agreement on Trade and Tariffs)~~ the Chinese Government now seems assured by the statement from the treaty department of the Foreign Office that an inter-ministry decision has been reached providing for China's acceptance of the treaty with final approval by the Legislative Yuan expected in the near future. The Chinese position on the treaty until now has been indefinite with little indication of any disposition to sign the protocol.

Economic

US Aid. As a "holding operation" the US Congress has passed legislation granting China US \$463 million covering a 12 months economic recovery program, commencing this month. This includes US \$125 million for possible military equipment.

Currency/Prices. Shanghai exchange and commodity markets were relatively quiet during the last half of March, but this failed to offset the upswing in the first half of the month. In spite of imperfections in the system, rice rationing has been a steadying influence. The price of unrationed rice increased 34% during March compared with 97% in February. The March cost of living for workers increased 43.7% over February with the index reaching 217,000 times the 1936 level. The February increase was 59% over the previous month. Large sums of money continue to leave Shanghai for speculative investments in outports. Interest rates remain high as the influx of North China funds have dwindled; most of this capital is by-passing Shanghai, going west and largely south. An unconfirmed report states that new notes in denomination of CN \$ 200,000 will soon appear; this is twice the value of the present largest note in circulation.

-6-

The Shanghai Market:	US \$ Exchange (Selling Rate)		Wholesale Price of Rice per 172 lb picul
	<u>Official "open"</u>	<u>Blackmarket</u>	
This week (2 April 48)	CN \$258,500	500,000	CN \$3,700,000
Week ago (26 March 48)	258,500	460,000	3,750,000
Month ago (2 March 48)	151,000	300,000	2,630,000
Year ago (2 April 47)	12,000	12,500	110,000

Foreign Trade. The National City Bank has reported to the US Consul General Shanghai that China is planning to inaugurate a new exchange policy whereby importers would be permitted to buy dollars freely on the condition that they turn over to the Chinese authorities one half of dollars so acquired.

-7-

FRENCH INDOCHINA

Thai Federation. A recent development in the continuing French policy of "divide and rule" in Indochina was the formation, a month ago, of the Thai Federation made up of 250,000 Thai from the Tonkinese provinces where this ethnic minority predominates. The French Commissioner for Tonkin announced that this group would be "autonomous within the interior of Vietnam and in the body of the French Union" with a representative government responsible for its own administration, justice, budget and police. When this federation was created, observers tended to discount its local importance in view of the primitive state of the people concerned. Within the past ten days, however, there have been protests from the Tonkin and Annam Administrative Committees on the grounds that the federation violates French pledges not to interfere in internal Vietnamese affairs. Indochinese nationalists commented that the formation of the Thai federation constituted the principal obstacle to smooth negotiations with the French, especially since Pao Dai now believes that High Commissioner Bollaert will attempt to present him with this "fait accompli" at their next conference. The former emperor regards the situation as another French doublecross; this attitude may well affect French chances of utilizing Pao Dai to counterbalance Ho Chi Minh's Vietnam Republic.

AUSTRALIA

Effect of ERP and Western Union plan. Australia's expectations of indirect but tangible benefits from the European Recovery Program is undergoing considerable change as the actual operation of the program becomes more a parent. Originally Australia assumed that Britain's participation in the program would mean assistance in meeting the dollar deficit of the sterling area and a greater supply of UK goods for export to Australia. The latter would relieve Australia from the necessity either of purchasing on the US market or foregoing certain much needed commodities.

It is now becoming clear that ERP will not help Australia's dollar position and in fact it constitutes a threat to Australia's preferential trade arrangements with the UK. Australia will have to compete unfavorably with European nations for commodities produced by the UK and may be forced to yield part of her UK markets in the interest of enabling the European countries to earn sterling.

Similar implications of a long term nature are inherent in the Western Union plan. While Australia has been reassured by the UK that she will be consulted before the economic sections are implemented, she is nevertheless concerned over the need to build up non-British markets. This may partially explain her reluctance to alter trading arrangements with Czechoslovakia.

NEW ZEALAND

Settlement of Queensland rail strike expected. An end to the two month old rail strike in Queensland is expected in the near future. The Central

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Disputes Committee has recommended that the striking rail-aymen return to work on the basis of the Government's offer of a \$2 marginal pay increase. This followed Premier Hanlon's conference with members of the Committee and a meeting of the State Council of the Amalgamated Engineering Union. A strong back to work move among the men has been evident in the past week.

PHILIP PINES

Philippine defense plans considered beyond capabilities. Major General Albert M. Jones, Chief of the Joint US Military Advisory Group in Manila, pointed out in an informal conversation with President Roxas on 1 April that defense requirements, attributed by the press to National Defense Secretary Ruperto K. Kangleon, were far beyond the capabilities of the Republic to support. President Roxas, indicating that Kangleon's statements were meaningless, expressed confidence in General Jones' advice and recommendations.

Earlier the same day General Jones, apparently as a result of Kangleon's statements which appeared in the morning press, had invited the Defense Secretary, the Chief of Staff, and other Philippine officers to present an estimate and outline of their emergency plans in which the Chief of the Advisory Group had not been requested to concur. General Jones considered the estimate then submitted to be faulty in that no possibility of air attack was envisaged. The emergency plans were likewise found to be defective--in part because they failed to include the Constabulary which the President is authorized to place under the Philippine armed forces in event of an emergency. The Advisory Group Chief questioned Philippine ability to equip and maintain a field force of three divisions. He urged the formulation of plans for redeploying the Constabulary in order to accomplish its present law and order mission and to frustrate a possible attempted landing of about two hostile airborne divisions. In reply to a question, General Jones stated that the US did not at present desire to utilize Philippine manpower and opined that to do so it would be necessary for the US to equip, train, and support a large part of the cost for such an undertaking since all three items were beyond Philippine capabilities. General Jones, finally, urged concentrated effort in preparing for the Philippine military training program for which registration is now underway.

Claims for US war damages expected to exceed one million. Frank A. Waring, Chairman of the US Philippine War Damage Commission, estimates that when final count is completed a total of a million and a quarter requests for war damages totaling \$1,200,000⁰⁰⁰ will have been submitted to the Commission--which ceased to accept claims 29 February. Eighty per cent of the claims examined thus far were for \$500 or less but these claims represent only 21% of the amount claimed.

Of \$400 million authorized by the Philippine Rehabilitation Act of 1946 for payment of private claims, it is estimated that \$175 million will have been paid out by the end of fiscal year 1949. Fifty-six million four hundred thousand dollars of the \$57 million allocated for payment of public claims will be expended or obligated by the end of fiscal 49.

Concerning operations of the Commission thus far, the Chairman reports that "public" claims (public buildings, hospitals, schools, etc.) with a claimed value of \$128 million (based on prewar values) have been submitted.

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PHILIPPINES (Approved For Release 2005/04/26 : CIA-RDP79-01082A000100010026-1)

For the 55,000 adjudicated private claims of \$500 or less (which have priority treatment over larger claims by existing legislation), \$8,350,000 has been approved by the Commission compared with \$24,670,000, sought by the claimants. Thus, disallowances have been running two-thirds, but this ratio is expected to be smaller in adjudicating larger claims.

Mr. Varing stated that the Philippine Government has in general made good use of war damage payments. Construction work, which has been performed almost exclusively by the Bureau of Public Works, has probably resulted in economies to the Government despite considerable delays in beginning operations. The Chairman indicated that, due to their gradual distribution, war damage payments will not act significantly to accelerate the current inflationary trend--at least so long as there is no interruption of imports from the US. General public reaction in the Philippines to the Commission's operations has been favorable in spite of some complaints, especially among larger claimants, over delays in payments.

CLO-inspired labor federation formed. According to the Manila press, six major peasant unions and at least ten industrial organizations on 8 March united to form the United Peasants and Labor Organization (UPLO). The new labor federation is considered especially significant by Philippine labor leaders since for the first time it links unions from all parts of the Philippines and joins both agrarian and industrial labor movements.

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The federation was inspired/encouraged by the leftist Congress of Labor Organizations (CLO), the most active labor organization in the Philippines. Always politically conscious, the CLO first engaged in overt political activity in the November '47 general elections when it supported four Liberal and four minority senators and elected one of its officials, Amado Hernandez, on the minority ticket to the Manila municipal council. With the formation of the United Peasants and Labor Organization, the CLO has a broader base on which to work and may be expected to exercise significant influence in the 1949 presidential elections.

Vargas appointed to Olympics delegation. Jorge I. Vargas, Philippine ambassador to Japan during the occupation who was freed of collaboration charges by the recent presidential amnesty proclamation, has been named head of the Philippine delegation to the London Olympics. Although it was rumored about a month ago that Vargas, an exceptionally able administrator, might be appointed presidential secretary, to date he has been given no official position. It is quite possible that his appointment to the Olympics delegation is the first step toward the resumption of his political career.